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IN THE

Supreme Court of the United States

OCTOBER TERM, 1949

No. 455

AUTOMATIC RADIO MANUFACTURING COMPANY, INC.,

Petitioner,

against

HAZELTINE RESEARCH, INC.,

Respondent.

BRIEF OF RESPONDENT IN OPPOSITION TO THE MEMORANDUM FOR THE UNITED STATES AS *AMICUS CURIAE*

MILES D. PHILLIPS,
National Press Building,
Washington 4, D. C.,
Attorney for Respondent.

Of Counsel:

PHILIP F. LAFOLLETTE,
LEONARD A. WATSON,
LAURENCE B. DORSEY.

Federal Printing Co., Inc., 82 Beaver St., N. Y.—Whitehall 3-0004-10 182

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Introduction

The Memorandum for the United States as *Amicus Curiae* (hereinafter referred to, for convenience, as the "Memorandum") is predicated upon two fundamental contentions: (1) that the case presents questions of public importance on which the decision of the Court below is in conflict with decisions of this Court or of Courts of Appeals of other circuits, and (2) that the factual situation, as presented by the Memorandum in support of the three issues discussed therein, is not in dispute. Both contentions are vigorously challenged.

POINT 1

Licensee's Estoppel to Contest the Validity of the Licensed Patents (Memorandum, pp. 2-5)

The gravamen of the argument under this Point is that licensee is not estopped to contest validity because of the presence in the license of provisions which would constitute unlawful restraint on trade *in the absence of valid patents* (pp. 4-5). There are two difficulties in this argument: *Firstly*, it *assumes* that the royalty payment and license notice provisions of the license *sub judice* would, in the absence of valid patents, constitute an unlawful restraint on trade. It will be shown hereinafter under Points 2 and 3 that this assumption is erroneous and the argument fails for that reason.

Secondly, its assumption apparently *concedes* the complete legality of the royalty payment and license notice provisions if the licensed patents are valid. This concession flatly contradicts its contentions under Points 2 and 3 in which it is urged that the royalty payment and license notice provisions represent *absolute* unlawful extensions of the monopoly *without regard to the existence of valid licensed patents*. Clearly, if the legality of the license contract is to be determined *without regard to the validity* of the licensed patents, there is no occasion to make an exception to the time-honored rule of estoppel to contest validity and permit a determination of validity. Therefore, the question of licensee's estoppel to contest validity is a separable issue which must be independently determined, as in the case of any simple, non-exclusive license agreement. Respondent has shown in its Main Brief (pp. 29-32) that in such case the licensee *is* estopped to contest the validity of the licensed patents. Neither the Petitioner nor the Solicitor General has cited any decisions to the contrary.

The Memorandum cites (p. 3) the decision in *Nachman Spring-Filled Corporation* v. *Kay Mfg. Co.* (139 F. 2d 781 (C. A. 2)), as being in conflict with the decision of the Court below. In that case, plaintiff, in prior litigation with defendant, had obtained a judgment under patents not involved in the instant case. In consideration for a release for damages under that judgment, defendant entered into an agreement with plaintiff in which it—

> "* * * acknowledged the validity of the patent involved in the present suit; agreed 'not to manufacture or sell' any devices which would infringe that patent; and further agreed to 'discontinue the manufacture and sale of devices embodying the invention' of the patent now in suit 'throughout the balance of the unexpired term thereof,' which was then approximately thirteen years. * * *"

The action was based on the charge of patent infringement and breach of contract by defendant. Defendant contested the validity of the patent but plaintiff contended that it was estopped to do so under the contract provision quoted above.

The Court of Appeals, in extending the rule of *Sola Electric Co.* v. *Jefferson Electric Co.* (317 U. S. 173), to the facts of the case, because of the restraint on competition involved in the agreement not to manufacture devices covered by a patent under which it was not, and never had been, licensed, said:

> "* * * As that Act (the Sherman Act) renders unlawful not merely price-fixing agreements but all agreements which, in any way, *unreasonably restrain competition* in interstate commerce, the conclusion is inescapable that the Sola case doctrine applies to any such agreement. * * *" (Emphasis added.)

In the present case it is a fact that Hazeltine imposes on none of its licensees any restraint whatsoever in their competition with each other or with Hazeltine. The *Nachman Spring-Filled Corp.* case is, therefore, inapplicable.

The Memorandum also cites (p. 4) the case of *United States* v. *U. S. Gypsum Co.* (333 U. S. 364, 389, 400), in support of its contention, but the very portion of the decision quoted refers to "an Anti-Trust suit instituted by a licensee against his licensor" which points up its inapplicability here. Petitioner has asserted here no claim for damages for alleged violation of the Anti-Trust Laws.

It is not true, as suggested in the Memorandum (p. 2), that the Court below "thought that the decisions of this Court * * * (*Sola* v. *Jefferson*, 317 U. S. 173, *Katzinger* v. *Chicago*, 329 U. S. 394 and *MacGregor* v. *Westinghouse*, 329 U. S. 402) should be restricted to the precise situation" where the license included a price fixing clause. The Court below concluded that this Court in those cases

> "pointedly declined to lay down the broader rule that a licensee may *in all cases* defend on the ground of invalidity of the patent * * *"

and expressed its own holding in the words:

> "* * * we are disinclined to extend the holdings in the Katzinger and MacGregor cases so as to *throw into the discard altogether* the long line of earlier cases disallowing a licensee to challenge the validity of the licensor's patent." (Emphasis added, R. 323.)

Only by such an extension could Petitioner in this case be relieved of estoppel, because neither any other Court of Appeals nor this Court has yet permitted a licensee to attack his licensor's patents in the absence of contractual provisions which, but for a valid patent, would result in contravention of federal anti-trust laws.

The decision of the Court below on the estoppel of a licensee under a simple, non-exclusive license to contest the validity of the licensed patents is in accord with the decisions of this Court and is not in conflict with the decisions of the Courts of Appeals of other circuits. There is no occasion for this Court to review that issue.

POINT 2

Measurement of Royalties on Gross Sales (Memorandum, pp. 5-6)

The Memorandum distorts the factual situation. The license in question grants the licensee the *right* to use not only any of the patents presently owned by Hazeltine but *also the right to use any of the future inventions* resulting from its extensive research and development during the term of the agreement. The payment for this privilege is measured as a nominal percentage of licensee's sales of apparatus of the type licensed (see Respondent's Brief, pp. 12-14). This payment or "royalty" is more in the nature of a fee for the grant of complete freedom of design under all of licensor's *present and future* inventions. Any convenient yardstick might be used in measuring the amount of such a fee. Completely neglecting Hazeltine's present group of valuable patents, certainly it could not be considered illegal for a party to agree to pay such a fee for the right to use any and all inventions which might be devised by a specialized research laboratory staff over a given period. In the instant case, licensee acquires that right and, *in addition*, the right to use any number of Hazeltine's present group of patents, of which it has liberally availed itself in all apparatus which it has sold (Respondent's Brief, p. 8).

No authority has been or can be cited disapproving such a payment provision. The authorities cited in Respondent's Brief (pp. 13, 14) uniformly approve this principle of royalty measurement. The Memorandum cites *United States v. U. S. Gypsum Co.* (333 U. S. 364, 389, 400), for the proposition that:

> "* * * a license arrangement whereby royalties were based on the value of unpatented as well as pat-

> ented products *contributed to the restraint of trade involved in that case.* Such a provision has the effect of exerting the power of the patent monopoly over unpatented products, a practice repeatedly held unlawful by this Court. * * *" (P. 6, emphasis added.)

The *U. S. Gypsum* case was an action by the United States against U. S. Gypsum and a number of its licensees charging violation of the Sherman Act. The theory of the complaint was that through their license agreements the *defendants had entered into a conspiracy in restraint of trade.* In that case, this Court did not condemn, but impliedly sanctioned, the measurement of royalties on the gross sales of the licensee (see Respondent's Brief, pp. 22-24). What this Court condemned in that case were the restrictive agreements entered into in concert by all competitors in an industry. The situation presented here is the very antithesis of a restraint of trade. Hazeltine readily grants licenses to *all* applicants under *all* of its inventions at a nominal "royalty", thus *promoting* competition.

The decision of the Court below on this issue is not in conflict with any prior decision of this Court or the Courts of Appeals of other circuits. Moreover, it is based on sound legal and equitable principles and there is no occasion for this Court to review it.

POINT 3

The License Notice Informing of the License Scope (Memorandum, pp. 7-11)

This section of the Memorandum, as well as the discussion under Estoppel at page 4, evidences a serious misconception of the practical operation and effect of the license notice in question. It *assumes* (without Record support) that a licensee who has a "home" license is *contractually bound* not to sell apparatus for commercial use; it further *assumes* (without Record support) that apparatus manufactured and sold for home use is also suitable for commercial use and would be sold for such use but for the license notice; and it further *assumes* (without Record support) that the effect of such license notice is to eliminate competition between holders of the "home" license and holders of the "commercial" license. *All of these assumptions are contrary to fact.*

The true factual situation is that, in general, apparatus intended for home use is of a design and construction substantially different than that intended for commercial use. Obviously, there is little similarity between a complex shipboard radar costing tens of thousands of dollars and a table model home radio receiver retailing for $12.95, and there is little likelihood that anyone would care to interchange their use. Hazeltine has two forms of license agreements, conveniently termed the "home" license and the "commercial" license, particularly adapted to different classes of apparatus. These licenses include different items of deduction in determining the base for royalty computations and different royalty rates, in order to accommodate the differences in commercial practices. Hazeltine freely grants both "home" licenses and "commercial" licenses *to all applicants*. If any licensee under

a "home" license, such as Petitioner here, has a market for apparatus suitable for "commercial" use, all he need do is apply for a "commercial" license; in such case he pays a royalty on each apparatus under the applicable license, there is no double royalty. Some eight companies, both large and small, are now operating under both of Hazeltine's "home" and "commercial" licenses.

Thus, no licensee is *contractually prevented* by Hazeltine from selling any apparatus of any nature whatsoever; all of Hazeltine's licensees are *contractually free to compete* in all classes of apparatus; and Hazeltine's open license situation actually *promotes* competition in the industry. If a "home" licensee, such as Petitioner, chooses to sell outside of his license in the "commercial" field, he may do so, in common with all other non-licensees in this field, solely at the risk of infringement of applicable patents—not at the risk of breach of contract with Hazeltine. It is only in case of such an infringement suit against a licensee or its customer with respect to unlicensed apparatus that the effectiveness of the license notice provision might properly be presented for adjudication. That was the situation in the case of *General Talking Pictures Corp.* v. *Western Electric Co.* (304 U. S. 175; 305 U. S. 124), discussed hereinafter.

The Memorandum confuses the issue by insistently referring to the effectiveness of the license notice with respect to licensed articles which have passed through the channels of commerce into the hands of "ordinary purchasers" (p. 9). But that issue is not presented here either by the pleadings or the facts. We are here concerned solely with the effect of such a license notice on the obligation of licensee to pay royalties. No one claiming injury arising from the license notice in issue is a party to this Action.

The Memorandum cites *General Talking Pictures Corp.* v. *Western Electric Co. supra*, and correctly states that the license notice

> "* * * upheld in that case is substantially identical with that in the case at bar. * * *" (p. 7).

The Memorandum quotes two issues which it states this Court reserved in the *General Talking Pictures* case. Both issues referred to restrictions upon freedom of use of the licensed article in the hands of a "*purchaser in the ordinary channels of trade*". No such question is involved here and these issues must therefore also be reserved by the Court in this case.

In fact, in the *General Talking Pictures* case, this Court went much further than the Court below was called upon to do in the instant case. In the former case, this Court gave effect to a license notice against a *purchaser with knowledge*. In the instant case, the Court below was not concerned with the effect of such a notice upon *any* purchaser, but only with its effect upon the obligation of the licensee to pay royalties. This is evident from the following statement of the Court:

> "* * * There may be circumstances under which a notice of restricted use would be inoperative and unenforceable as against subsequent purchasers, *but that problem is not presented in the case at bar.* And it is to be noted that the judgment from which this appeal is taken does not even command Automatic, the licensee, to comply with the term of the agreement requiring it to attach the restrictive use notices to the licensed apparatus sold by it." (Emphasis added.)

> "In fact, it appears that none of the radio apparatus made and sold by Automatic has been marked with the restrictive use notice required by Article VI; in other words, Automatic (fol. 322) has consistently ignored this provision of the agreement. Automatic makes the curious suggestion that its own breach of this term of the contract affords an independent ground for relieving it of the obligation to pay the stipulated percentage royalties. * * *"

In brief, the Memorandum is asking this Court to hold that Respondent's license notice, patterned in conformity with that specifically approved in the *General Talking Pictures* case, constitutes a violation of the anti-trust statutes which, however, have not relevantly changed since the decision in the *General Talking Pictures* case. No rational basis is advanced for urging this complete reversal upon this Court to the detriment of the public which have acted in reliance on its prior decisions.

The Memorandum cites (p. 10) the decision in *RCA Mfg. Co.* v. *Whiteman* (114 F. 2d 86), as in conflict with the opinion of the Court below. That case involved the asserted infringement of a common law trademark by the resale of phonograph records of Paul Whiteman's orchestra for uses outside of a license notice attached to the records. The Court found that plaintiff had no copyrights in the resold records and considered only in passing the legality of the license notice, expressly declining to decide the question, saying:

> "• • • We do not, however, have that question to decide, for we think that the 'common-law property' in these performances ended with the sale of the records and that the restriction did not save it; and that if it did, the records themselves could not be clogged with a servitude" (p. 88).

Thus, the *RCA Mfg. Co.* case is inapplicable here both because the Court expressly reserved decision on the question of the legality of the license notice and because the factual situation involved the rights of a purchaser of the licensed articles in the ordinary channels of commerce, a situation not present in this case.

Therefore, on sound legal principles and on the authorities, the holding of the Court below that the license notice in issue does not relieve the licensee of its obligation to pay royalties is in accord with the decision of this Court in the

General Talking Pictures case and is not in conflict with decisions of the Courts of Appeals of other circuits. There is no occasion for this Court to review this issue.

Conclusion

No new questions of law and no important questions of law not already settled by the decisions of this Court are presented by the decision of the Court below. The decision of the Court below is not in conflict with decisions of this Court or of Courts of Appeals of other circuits. There is no occasion for this Court to review the decision of the Court below.

Respectfully,

MILES D. PULLARS,
National Press Building,
Washington 4, D. C.,
Attorney for Respondent.

Of Counsel:

PHILIP F. LAFOLLETTE,
LEONARD A. WATSON,
LAURENCE B. DODDS.